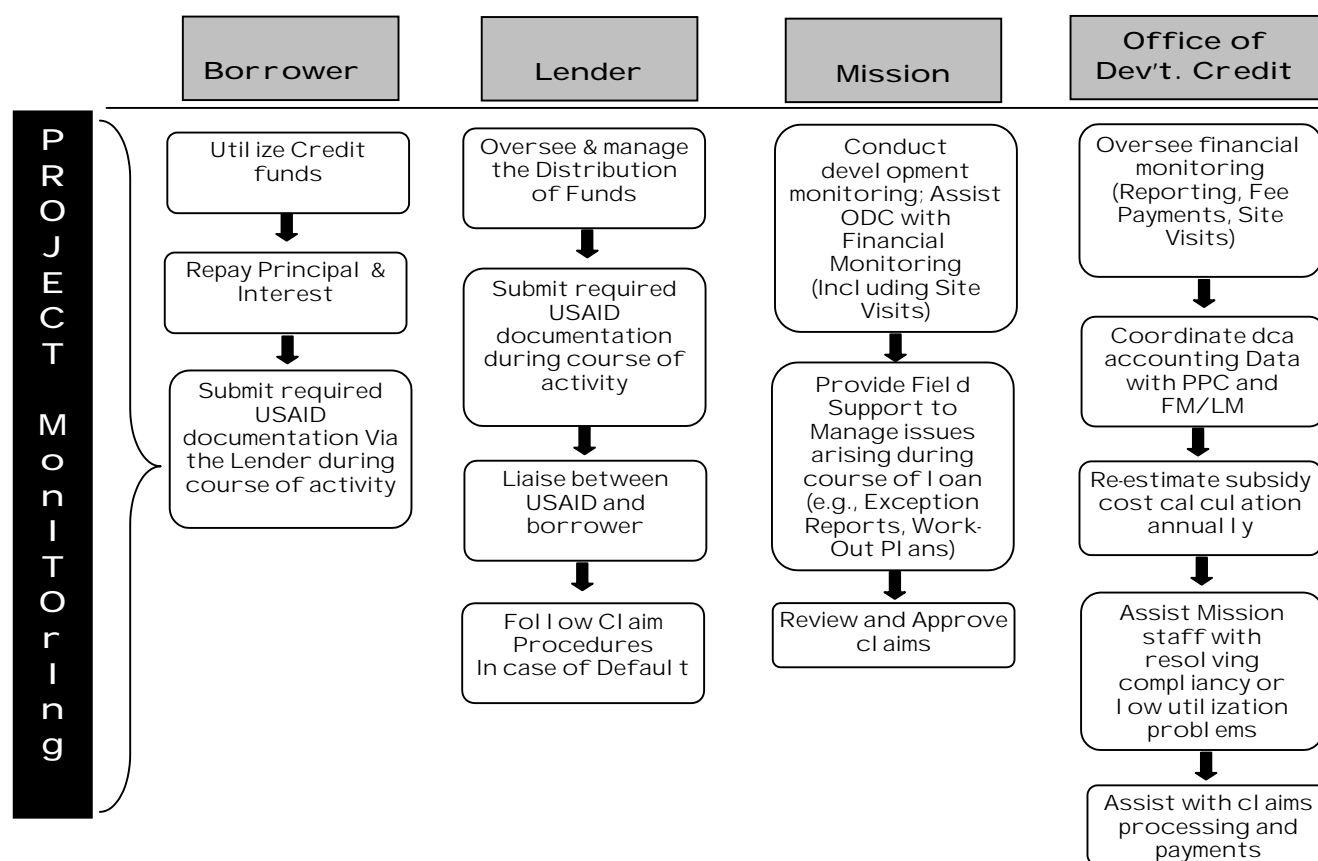


Project Monitoring

The following chart summarizes the main activities of DCA Project Monitoring from the perspective of the four entities listed in Project Development. The Office of Development Credit is the principal entity responsible for financial monitoring of all DCA projects with the Mission playing a secondary role. The financial monitoring role is supplemented by two other USAID entities:

- **Bureau of Policy and Program Coordination:** to track and monitor DCA accounts.
- **Office of Financial Management/Loan Management:** to perform all fee billing and collection activities and to disburse claim payments following approval from Missions. These responsibilities are currently coordinated with its Financial Agent contractor.



BACKGROUND

Monitoring is an integral aspect of the DCA process to insure that both the developmental and financial objectives of a given activity are in line with the standards established by the DCA. Developmental monitoring is inherent in the framework of the annual report, formerly known as the R4, monitoring process.¹⁵ As a result, there are no further requirements from the perspective of the Office of Development Credit pertaining to the measurement of progress toward development goals. Furthermore, this is the Mission's responsibility. Financial monitoring, in contrast, is essential to overall DCA portfolio management, and therefore, the relevant project monitoring activities are outlined in this section.

These activities are necessary to minimize the financial risk to the U.S. Government associated with providing loans and guarantees. The data collected in the financial monitoring process are used to:

- Assess and manage risk exposure;
- Ensure compliance to the Guarantee Agreement by the participating financial institutions (FIs);¹⁶
- Calculate and invoice utilization fees; and
- Budget adequate funds for claims payments.

PROJECT MONITORING RESPONSIBILITY OVERVIEW

Similar to the previous Project Development section, project monitoring responsibilities are divided among several key entities.

ODC	The Office of Development Credit coordinates project monitoring as portfolio manager for all DCA projects. This primary responsibility includes the following: 1.) Ensure receipt of necessary reports from the FI, 2.) Request follow-up assistance from the Mission to resolve late reporting or compliance issues, 3.) Forward the necessary utilization data to FM/LM for fee processing, 4.) Prepare monthly and quarterly portfolio status reports, and 5.) Assists with claims processing and payments.
Mission	The Mission adheres to the Financial Monitoring Plan prepared during the Project Development process, which primarily involves field support to the ODC for follow-up communications and periodic site visits to the FI. The Mission may also initiate the 'Early Warning System' in case it becomes aware of potential problems in credit activities. The Mission's monitoring role also includes pursuing delinquent reporting and payments, as well as approving and processing claim payments following ODC review. In general, the Mission provides monitoring support as required by the Office of Development Credit in resolving compliance and reporting issues.
FM/LM	FM/LM and its Financial Agent provide necessary financial management reports related to outstanding balances, cash disbursements and receivables to help monitor DCA activities. FM/LM is responsible to bill (i.e. produce Notice of Payment Due), collect DCA fees, issue the first late notice to a borrower/lender, ¹⁷ and produce weekly exception reports.

¹⁵ R4 (Results Review & Resource Request) is the annual planning document that each USAID office is required to develop for budgetary and performance review purposes.

¹⁶ Financial Institution (FI) will be the generic term used in this section of the Manual. It represents 'lenders' in the case of a typical DCA guarantee, and 'borrowers' in the case of DCA direct loans.

¹⁷ A demand for an overdue payment is also referred to as a "dunning notice".

PPC/B	PPC/B tracks and monitors the DCA program and financing accounts. PPC/B also coordinates Congressional Notifications with the Regional Bureaus and the DCA budget allowances with OMB, as well as participates in the annual budgeting exercise.
CRB	The Credit Review Board reviews and approves work-out plans with assistance from the ODC. (Work-out plans attempt to decrease the likelihood of default by restructuring the credit repayment schedule.)
GC	The General Counsel assists the CRB with work-out plans in case of potential default situations.

ODC/MISSION MONITORING RESPONSIBILITIES

The Office of Development Credit and the Mission are presented concurrently because often their monitoring responsibilities overlap. In most cases, the ODC will take a lead role, with the Mission in a supporting role, to manage: FI report assessments, compliance reviews, fee payment follow-up, performance measurement, claim reviews, subsidy re-estimates and de-obligations, and project close-out.

Collection and Review of FI Reports

As stipulated in the Guarantee Agreement, the FI will submit either quarterly or semiannual reports in duplicate to the ODC and the Mission. These reports will predominantly focus on financial data, but the Mission should also consider including development-related measures to assess the impact of this DCA activity on its strategic objectives. The financial data collected will be utilized to monitor credit risk, calculate utilization fees due from the FI, and update USAID financial records.

As previously described in the DCA Products section of this Manual, the structure of these quarterly or semiannual reports depends on the DCA product. In the case of loan portfolio guarantees (LPGs) and wholesale guarantees, the FI will submit the following reports:

- **Qualifying Loan Schedule (QLS):**¹⁸ A QLS is a list of loans placed under coverage, which show the borrower's name, original loan amount, date, maturity, and outstanding principal balance as of the end of that particular period. Review of the QLS should insure that balances from the preceding and current period comply with the Guarantee Agreement, i.e. if the DCA guarantee only covers loan principal, the outstanding balance should not increase from one period to the next. See Appendix IV.A for a QLS template.
- **Transaction Reports (TR):** The FI may also be required to submit a Transaction Report for every new loan placed under coverage. The TR allows the ODC/Mission the ability to review and approve loan details (e.g., type of business, assets and annual sales of borrower, purpose of loan) submitted by the financial institution to verify compliance with the intended purpose of the guarantee.
- **Certification Letter:** To be submitted along with other required reports, signed by an official of the organization to validate the reported information.

¹⁸ The ODC web site maintains a PDF version of the application for the USAID Micro and Small Enterprise Development (MSED) guarantee program at http://www.usaid.gov/economic_growth/egad/ci/port_guar_app.pdf. Templates for the QLS, TR, and legal agreements are included in this document. MSED is a predecessor USAID credit program to DCA. It provides guarantees to microfinance institutions, and its current deals will expire by 2006.

The report for a loan guarantee, bond guarantee, or portable guarantee will typically involve verification that actual loan or bond payment installments adhere to the original repayment, or amortization schedule. This verification is typically required semiannually. Similar to the LPG, the FI will be required to submit a signed Certification Letter to validate the reported data.

After receiving the FI's report, the ODC will advise the Mission to resolve any unclear information and/or discrepancies identified in the reports. This resolution process can either be in written or verbal communications, however the Mission should clearly document and record all letters, faxes, emails, and telephone calls. As required, the ODC will provide guidance on how to resolve these issues based on its historical experience with the MSER program.

Fee Collections

After the DCA Guarantee Agreement is authorized by USAID and the participating FI, the ODC will forward a copy of the signed Agreement to FM/LM to process the billing of the **origination fee**. If the Mission receives this payment, or any future utilization payments, it will forward proof of payment to the ODC, which will then inform FM/LM.

The ODC will provide a copy of the reviewed and compliant FI quarterly or semiannual report to FM/LM to process for the billing of the **utilization fee**. The data relevant for processing the utilization fee payment are the accurate outstanding balances on the loan(s)/bond(s).

If the FI is more than ten days late in paying its fees, FM/LM is responsible for sending the first "dunning notice". Following that initial notice, the Mission, with ODC guidance, will generate dunning notices for any payments delinquent at 30, 60, 90 and 120 days past due. All notification activities should be documented, including all written or oral correspondence. ODC will inform FM/LM of all collection attempts, and will request that the Mission draft an Exception Report, as described in the subsequent section of this Manual.

If the settling of prolonged delinquent payments extends beyond 180 days, and its value is considered significant compared to the cost of payment pursuit, ODC will direct the Mission to structure a work-out plan with assistance from the General Counsel. In the event the work-out plan is not feasible, ODC will assist the Mission with a termination plan within 180 days.

Performance Measures

ODC will be responsible for tracking the following performance measures as categorized as follows:

- Financial Tracking
- Timeliness
- Risk Exposure

Financial Tracking

- **Current Utilization** = Current Outstanding Principal as a % of the Maximum Covered Portfolio.
- **Cumulative Utilization** = Cumulative Credit Provided as a % of the Maximum Covered Portfolio

These measures should be analyzed in two different *product line categories* – Loan Portfolio Guarantees (LPGs) and Loan Guarantees, which will include all portable, wholesale and bond guarantees. LPG balances will increase and decrease depending on new sub-loans and the expiration of old sub-loans under guarantee coverage. In contrast, loan guarantees will typically begin with the full amount of outstanding principal and gradually decline over time as the borrower pays back the loan or bond.

Timeliness

- **Fee Payment Timeliness** = Number of days between a fee ‘due date’ and ‘pay date’.
- **Reporting Timeliness** = Number of days between ‘due date’ and ‘received date’ for required reports, i.e. QLSs.
- **Claims Processing Timeliness** = Number of days between ‘date claim submitted’ and ‘claim pay date’. This would serve as an internal measure to assess the responsiveness of USAID in honoring its guarantee coverage in a timely manner.

Risk Exposure

- **Current Risk:** Cash Inflows – Cash Outflows as a % of Subsidy
 - Cash Inflows = Fees Received
 - Cash Outflows = Claims, net of recoveries
 - Subsidy = net present value of claims less fees
- **Pending Risk:** (Current Risk and Potential Cash Outflows) as a % of Subsidy
 - Potential Cash Outflows = probable claims (loans with outstanding balances that have not declined for four consecutive periods and loans that have been submitted for claims processing)

Every six months, ODC should review the following checklist of activities for each DCA project. All ‘triggers’ on this checklist should result in a phone call or e-mail from the ODC to the appropriate Mission contact person to request follow-up with the participating FI. The same checklist will assist the Mission contacts in their responsibilities for DCA monitoring. In this manner, the Mission representatives would communicate with DCA participants without necessarily waiting for a communication from the ODC.

☑	<i>Monitoring Checklist</i>
☐	If the guarantee agreement was finalized more than six months ago, and utilization has yet to be reported – i.e. current utilization is 0%.
☐	(LPG only) Current utilization is below 20%.
☐	Outstanding fees exceed 30 days in arrears.
☐	Required reports have not been received by 45 days from the end of the reporting period.
☐	If a claim report has been submitted, status of claim payment. If ‘date claim submitted’ is more than 30 days from the current date, the Relationship Manager should work with Monitoring Analyst and FM/LM to check status.
☐	‘Current Risk’ exceeds 50%, i.e. net cash flow is more than half the subsidy estimate.
☐	‘Pending Risk’ exceeds 75%, i.e. net cash flows plus potential claims are more than 75% of the subsidy estimate.



As utilization, fee payment, reporting, and claim data are received and processed by the ODC, reports will be produced to analyze performance in these categories with regional breakdowns as well as the identification of 'best' and 'worst' performance across regions.

Exception Reports – Early Warning System

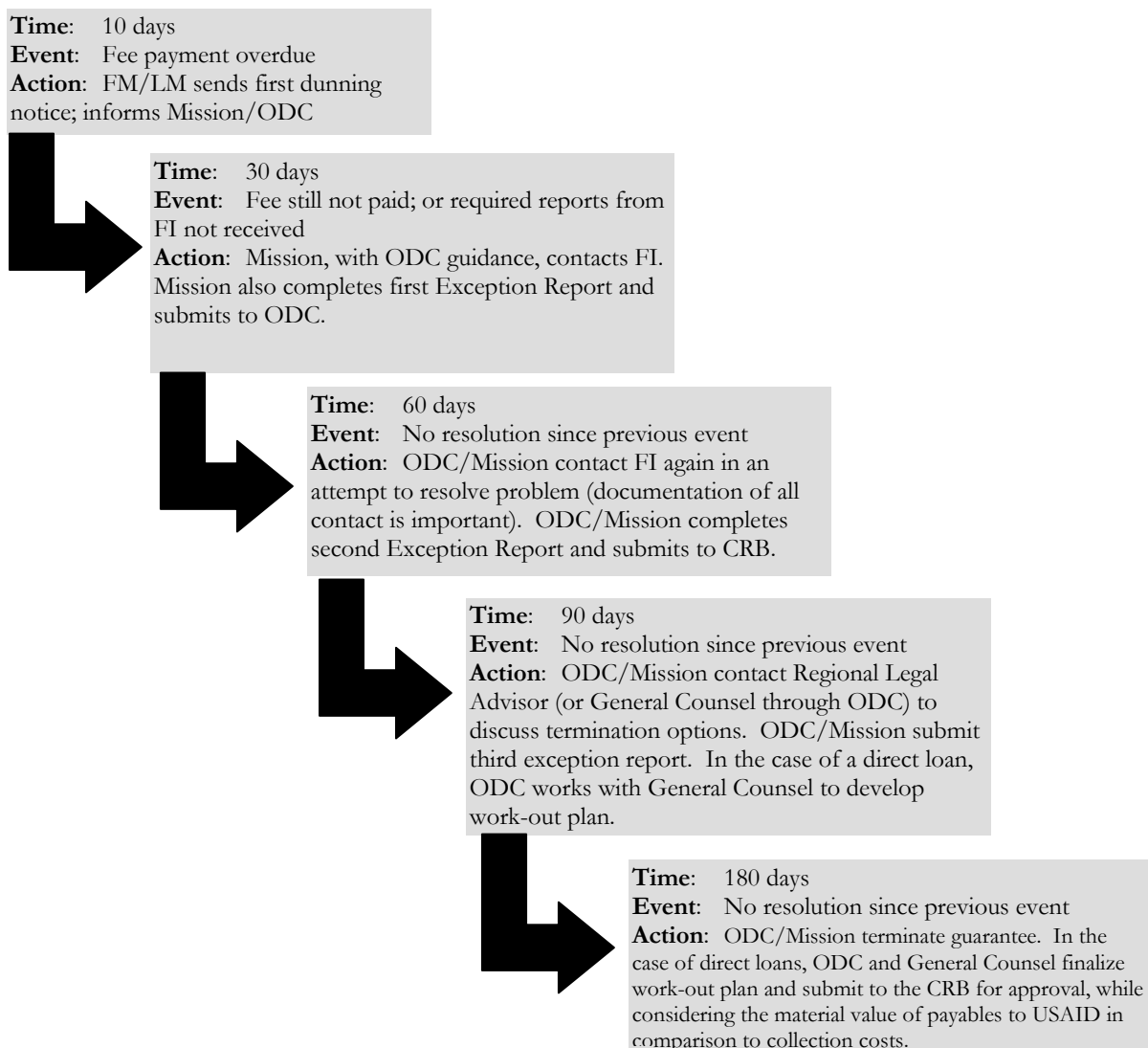
In case of delinquent reporting or fee payments, ODC will request that the Mission send a Delinquency Notice (Appendix IV.D) to the FI. In case there is no response to the written notice from the FI within two weeks, the Mission will follow-up with a telephone call and/or site-visit to assess the situation. The Mission will inform ODC of its assessment, and if these follow-up activities to the late reporting lead to the discovery of increased credit risk, ODC will advise the Mission to create an Exception Report (Appendix IV.C). The Exception Report should detail the nature of the issue, collection efforts, and resolution strategy. This should be filed for any delinquent payments of 30 days or more and should continue to be filed for each month that delinquent receivables persists.

Also, if the Mission receives news of an unusual event (pending bankruptcy, management changes, etc.) or external factors, such as signals of a pending economic or political crisis, which would alter the credit risk of the DCA project, the Mission will submit an Exception Report to ODC. The ODC will always forward copies of Exception Reports to FM/LM and PPC.

The following diagram on the next page summarizes a step-by-step process of handling potential problems related to DCA project monitoring. The key trigger for this process is a delay in fee payment by the FI. However, there are several factors that the ODC/Mission should monitor that may also trigger the implementation of this warning system:

- Significant delays in FI reporting
- Change in financial soundness of the FI
- Decline in local economic conditions
- Significant depreciation in foreign exchange rate (if applicable)

Early Warning System Diagram



Subsidy Re-estimates

The Guarantee Agreement will specify that the FI must submit annual audited statements in duplicate to the ODC and the Mission. If there is a delay in receiving these reports three months following the end of the FI's fiscal year, the ODC will contact the Mission to follow-up with the FI to collect its annual statements. These audited accounts are necessary for the ODC to review and possibly revise subsidy cost estimates. As stated previously, any changes in the subsidy cost will not affect Mission funds.

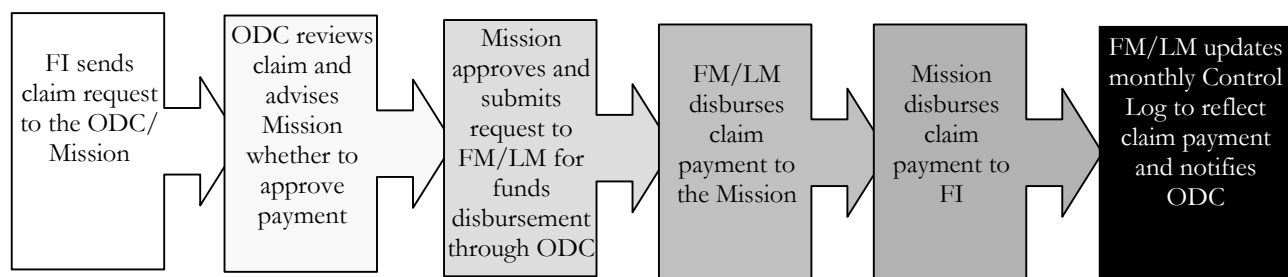
Premature Subsidy De-obligations

Once the subsidy cost is obligated, i.e. transferred to the DCA Program Account, it can be de-obligated if the underlying credit instruments are never enacted or utilization is minimal. The long-standing USAID rule is that when a Mission de-obligates funds, the funds belong to PPC. In consultation with the Regional Bureau and the Administrator, PPC will respond to immediate and changing needs. In some instances, the office de-obligating the funds will receive 50% of the money back. More specific stipulations are as follows

- For DCA obligations through 2000, de-obligations will remain in the DCA Account until expended (i.e., as no-year money) unless the Mission actively seeks to have the funds returned to their original character. Post FY2000, de-obligations of DCA funds “shall remain available until expended if such funds are initially obligated before the expiration of their respective periods of availability.”
- The de-obligated funds that remain in the DCA account belong to the Agency and will be treated/dispensed in the same way that de-obligated grant funds are dispensed. For example, when the Administrator does a sweep of de-obligations for a specific immediate need, the Administrator could order that the DCA subsidy from the de-obligations be held for DCA projects related to the immediate need.

Claim Payments

The following diagram depicts the major steps in the review and approval process of claim payments. The Mission and the ODC will **only** take actions on claim payments if the FI is current on all reporting and fee payments.



Post-Claim Recoveries Collection

In coordination with the ODC, the Mission will send out annual notifications to all current and former lenders that have submitted a claim payment. This notification will remind FIs that they are legally obliged to share any recoveries, received on loans that have previously been written-off, with USAID. The reminder notification will cite:

- Guarantee number
- Each claimed sub-loan
- Local currency and dollar amounts of each claim
- Date of each claim
- Recoveries shared with USAID

FM/LM RESPONSIBILITIES

In addition to the supporting roles identified in the previous section of ODC/Mission responsibilities, FM/LM, and its Financial Agent, perform the following responsibilities in the monitoring process:

1. Billing functions for DCA activities.
 - Generate bills for origination and utilization fees in accordance with the outstanding principal guaranteed amount for guarantees or in accordance with the amortization tables in the case of a direct loan as provided by the Mission. See Appendix IV.B for a sample form of a Notice of Payment Due.
 - Provide copies of the Notice of Payment Due to the ODC/Mission
 - Send first dunning notice, ten days past due, to the FI if a payment is late.
 - Calculate all late fees and penalty charges and bill accordingly.
 - Receive U.S. dollar payments from FIs by way of electronic funds transfer via the New York Federal Reserve to the USAID account at the U.S. Treasury Department (preferred); or receive foreign currency payments from the Controller of the Mission should the FI pay by SWIFT wire transfer/check directly to the Mission.
 - Maintain a complete listing of receivables and send electronically to the Mission to assist in collection efforts and to the ODC for DCA portfolio management. FM/LM will also ensure this data is included in the USAID Standard General Ledger.
 - Determine discrepancies between billed and paid amounts and generate revised Notice of Payments due with the appropriate explanation in a cover memorandum.
2. Preparation and distribution of weekly exception reports for distribution to the ODC and the Missions (late fees and QLS reports).
3. Distribution of “Control Logs”, financial management reports, to Missions and the ODC.
 - For transactions requiring immediate attention by the Mission or the ODC, e.g., delinquent payments, FM/LM will prepare weekly exception reports for ODC and the Missions.
 - The monthly Control Log reports will list data by facility or transaction. Data elements for the Control Log will include:
 - Loan and guarantee transactions
 - Total amount of loans and guarantees (i.e. authorized amounts) and current outstanding balances
 - Principal and interest receipts (quarterly and cumulative to date)
 - Facility fee and utilization fee outstanding and collected, to date
 - Claim payments made to date
 - Un-disbursed balances
4. Disbursement of funds (see “Claim Payments” diagram in previous section.)

PROJECT CLOSE-OUT

Six months prior to the expiration of a guarantee or direct loan, the ODC/Mission will notify the FI of the facility expiration. The notification will include the date of termination and reference to termination requirements in the standard terms and conditions of the legal agreement. ODC will send a copy of this expiration notice to FM/LM.

Final Reports/Fees

The ODC/Mission will monitor the collection of final reports and fee payments, especially in regards to processing reports and follow-up on the final NPD from FM/LM. FM/LM will notify the ODC/Mission after the final utilization fee payment is received.

Claim Payments

The Mission will process claims in accordance with Guarantee Agreement standards, which typically permit the FI to submit claims six months after expiration of the DCA guarantee or loan. However, loan default and the lender's demand for full repayment from the borrower must have occurred prior to the expiration of the guarantee facility. Following claim payments, the FI is legally obligated to share any recoveries with USAID. The Mission must take the initiative to remind the lenders that they are obliged to share these recoveries. (See previous section, "Post Claim Recoveries Collection).

Subsidy De-Obligation

To officially de-obligate the subsidy funds committed to a DCA project, the following steps should be executed:

1. After receipt of expiration notice from ODC, FM/LM updates Control Log to reflect upcoming termination
2. FM/LM sends final bill to FI after receiving final semiannual or quarterly FI report from ODC
3. FM/LM forwards copy of Expiration Notice to ODC within 30 days as a reminder to follow-up with the Mission
4. Mission decides if it will de-obligate any unused credit subsidy and notifies ODC

Loan Write-Offs

In the case of direct loans, USAID has the authority to settle or compromise debts owed to it pursuant to OMB Circular A-129. In addition, OMB Circular A-129 and the Federal Claims Collection Standards provide guidance on this topic and should be consulted when appropriate. The Mission will recommend write-offs after certifying to the CRB that all due-diligence collection efforts have been made. Steps to write-off debts owed to USAID are:

1. Mission requests write-offs to the CRB and the ODC
2. CRB reviews write-off with General Counsel
3. CRB recommends write-off to CFO within 15 days
4. CFO approves write-off of balances deemed 'uncollectible' according to USAID policies
5. CFO notifies FM/LM within 5 days
6. FM/LM records write-offs in subsidiary ledgers

PROJECT EVALUATION

Following project close-out, three levels of DCA project evaluation include:

Mission-level:

- **Development Progress:** DCA activities are subject to the same evaluation requirements as grant funded activities. At the Mission level, such requirements include, but are not limited to, the annual R4 planning process and results tracking.

ODC-level:

- **Financial Soundness:** The financial soundness of the DCA portfolio will be under continuous evaluation using the financial monitoring systems and annual re-estimates outlined in Project Monitoring. In addition, the CRB will review DCA portfolio financial information annually to evaluate the financial soundness of the DCA portfolio and to identify DCA activities that are developing problems that require management attention. A report based on this review will be submitted to the CFO.

PPC-level:

- **Effective Management of Credit Assistance** A special report on the lessons learned from the first generation of DCA activities will be made approximately five years after the first DCA activity is authorized. The USAID Bureau for Policy and Program Coordination (PPC) and its Center for Development Information and Evaluation will coordinate the terms of reference for this report.